

## Message Text

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ACTION SS-14

INFO OCT-01 ISO-00 EB-03 EUR-08 SP-02 TRSE-00 NSC-05 FRB-01  
CIAE-00 SSO-00 NSCE-00 /034 W  
----- 105180 /21  
O 231143Z DEC 76  
FM AMEMBASSY LONDON  
TO SECSTATE WASHDC IMMEDIATE 9015

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E.O. 11652: N/A  
TAGS: EFIN, UK  
SUBJECT: SITUATION REPORT, DECEMBER 23

REF: (A) STATE 267168; (B) LONDON 20611

1. FOREIGN EXCHANGE AND FINANCE: THE POUND TRADED IN  
A VERY QUIET MARKET THROUGH MOST OF WEDNESDAY RISING IN  
THE AFTERNOON TO CLOSE AT \$1.6860, A GAIN OF 0.55 CENTS  
ON THE DAY. THE TRADE-WEIGHTED DEPRECIATION NARROWED  
SLIGHTLY TO 44.6 FROM 44.7 AT TUESDAY'S CLOSE. THE  
LATE IMPROVEMENT IN STERLING WAS AIDED BY THE EXTREMELY  
LARGE INCREASE IN OVERNIGHT INTEREST RATES ON  
WEDNESDAY.

THE BOOM IN GILT SALES WAS TEMPERED WEDNESDAY  
AFTERNOON AS THE GOVERNMENT ANNOUNCED YET ANOTHER GILT  
ISSUE, THE 15-1/4 PERCENT 1996A. 750 MILLION POUNDS OF  
THE 1996A WILL BE ISSUED, PRICED AT 99, IMPLYING A  
YIELD TO REDEMPTION OF 15.42 PERCENT. THE ANNOUNCEMENT  
OF THE ISSUE BROKE THE PRICE INCREASES OF LONG-DATED  
GILTS FROM 3/4 TO 1/4 ON THE DAY. SHORT DATED GILTS  
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HOWEVER CONTINUED TO SELL STRONGLY WITH CONSIDERABLE  
PURCHASES OF THE SHORT TAP STOCK, THE EXCHEQUER 13  
PERCENT 1980.

ENORMOUS PRESSURE WAS FELT IN LATE WEDNESDAY'S  
MONEY MARKET AS THE OVERNIGHT INTERBANK STERLING RATE

TOUCHED 500 PERCENT AT TIMES. THE SETTLEMENT OF STRONG GILT SALES THIS WEEK, AND A NET TAKEUP OF TREASURY BILLS ADDED TO THE NEED FOR CASH TO REPAY YESTERDAY'S LARGE OFFICIAL ADVANCE. THE MONETARY AUTHORITIES GAVE LARGE ASSISTANCE TO THE MARKET, BUT THE FINANCIAL TIMES (FT) SUGGESTS THAT THE BANK WAS RESTRAINED IN ITS SUPPORT IN ORDER TO SIGNAL AGAIN THAT IT WOULD FIND A DECREASE OF OVER 1/4 PERCENT IN THE MINIMUM LENDING RATE THIS FRIDAY REPUGNANT. THURSDAY MORNING SAW CONSIDERABLY LOWER OVER NIGHT INTEREST RATES BUT THEY STILL STOOD ABOVE 20 PERCENT.

THE EQUITIES MARKET CONTINUED TO ADVANCE ON WEDNESDAY AS THE FT INDEX OF 30 ORDINARY INDUSTRIALS INCREASED 6.7 POINTS TO 344.5.

2. THE BRITISH GOVERNMENT AND FINANCIAL INSTITUTIONS ARE GOING INTO THEIR WINTER HOLIDAY HIBERNATION, AND THE ONLY WORKING DAYS FOR THE EMBASSY DURING THE PERIOD TO JANUARY 4 ARE DECEMBER 29 AND 30. FURTHERMORE, THE BRITISH ECONOMY APPEARS TO BE IN A SMOOTHER OR AT LEAST QUIET PATCH. THEREFORE, UNLESS THERE ARE UNEXPECTED DEVELOPMENTS, WE DO NOT PLAN TO SEND ANOTHER SITREP UNTIL JANUARY 4. WE WOULD, IN FACT, APPRECIATE BEING ADVISED BEFORE THAT DATE WHETHER THE SERIES NEED BE RESUMED. SPIERS

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## Message Attributes

**Automatic Decaptioning:** Z  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** REPORTS, ECONOMIC CONDITIONS, FINANCIAL TRENDS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 23 DEC 1976  
**Decaption Date:** 28 MAY 2004  
**Decaption Note:** 25 YEAR REVIEW  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** BoyleJA  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1976LONDON20666  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D760471-0012  
**From:** LONDON  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1976/newtext/t19761217/aaaaaoqb.tel  
**Line Count:** 87  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION SS  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** LIMDIS, ONLY  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** LIMDIS  
**Page Count:** 2  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** LIMDIS; LIMDIS, ONLY  
**Reference:** 77 STATE 267168, 77 LONDON 20611  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** BoyleJA  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 14 MAY 2004  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <14 MAY 2004 by GarlanWA>; APPROVED <13 SEP 2004 by BoyleJA>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
04 MAY 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** SITUATION REPORT, DECEMBER 23  
**TAGS:** EFIN, UK  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006